

**TOWN OF NORTH READING, MASSACHUSETTS**

**Financial Statements**

**June 30, 2009**

**(With Accountants' Report Thereon)**

***Giusti, Hingston and Company***  
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Town of North Reading, Massachusetts  
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INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS – TOWN  
OF NORTH READING, MASSACHUSETTS

Board of Selectmen  
Town of North Reading  
Town Hall  
235 North Street  
North Reading, MA 01864

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of North Reading, Massachusetts as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of North Reading, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of North Reading, Massachusetts as of June 30, 2009 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 28, 2010 on our consideration of the Town of North Reading, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, the budgetary comparison information, the retirement system schedules and the other post employment benefit schedules listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Town of North Reading taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Giusti, Hingston and Company*

Giusti, Hingston and Company

Certified Public Accountants

January 28, 2010

**Town of North Reading, Massachusetts  
Management's Discussion and Analysis  
Required Supplementary Information  
June 30, 2009**

As management of the Town of North Reading, Massachusetts, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Town of North Reading, Massachusetts for the fiscal year ended June 30, 2009.

**Financial Highlights**

- The assets of the Town of North Reading, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$49,874,823 (*net assets*).
- The governmental activities total net assets decreased by \$701,675. The Golf had a decrease in net assets of \$457,194 and the Water enterprise fund had an increase in net assets of \$504,595.
- The Town implemented Governmental Accounting Standards Board Statement #45 in fiscal year 2009. As a result, a liability and expense related to other post employment benefits (\$2,559,214) were reported in the governmental activities causing the significant reduction in unrestricted net assets.
- At the end of the current fiscal year, unreserved-undesignated fund balance for the general fund was \$1,264,531, or 2.5 percent of total general fund expenditures.
- The total long term debt of the Town of North Reading, Massachusetts increased by \$737,631 or 2 percent during the current year. The change relates to an increase in the Governmental Activities (\$1,306,637 or 4%) and a net decrease in the Business-type Activities (\$569,006 or 10%).

**Overview of the Financial Statements**

The discussion and analysis are intended to serve as an introduction of the Town of North Reading, Massachusetts' basic financial statements. The Town of North Reading, Massachusetts' basic financial statements consists of the following: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of North Reading, Massachusetts' finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all of the Town of North Reading, Massachusetts' assets and liabilities, with the differences between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of North Reading, Massachusetts is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise of the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements have separate columns for governmental activities and business-type activities. The Town's activities are classified as follows:

- **Governmental Activities** – Activities reported here include education, public safety, public works, library and general administration. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.
- **Business-type Activities** - Activities reported here are for water supply distribution and golf course and other recreational operations. User fees charged to the customers receiving services finance these activities.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of North Reading, Massachusetts, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of North Reading, Massachusetts can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

**Proprietary funds.** The Town of North Reading, Massachusetts maintains two enterprise funds as proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of North Reading, Massachusetts uses enterprise funds to account for its water and golf/recreational operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and golf operations and both are considered to be major funds of the Town of North Reading, Massachusetts.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

## **Reconciliation of Government-wide Financial Statements to Fund Financial Statements**

The governmental activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. Capital assets and long-term liabilities are not included on the balance sheet of the governmental funds, but are included on the statement of net assets. Capital assets are recorded as expenditures when they are purchased in the governmental funds and depreciated over the useful life in the government-wide financial statements. We have included schedules that provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements:

- Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets.

- Reconciliation of the statement of revenues and expenditures and changes in fund balance of governmental funds to the statement of activities.

The reconciliation of government-wide financial statements to enterprise funds of the fund financial statements is not necessary. The business-type activities of the government-wide financial statements and the enterprise funds use the same accounting basis and measurement focus.

## Financial Analysis of the Government-Wide Financial Statements

### Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. However, the net assets of governmental activities should be viewed independently from business-type activities. Resources of the governmental activities are typically not used to finance costs related to business-type activities. Revenues of the business-type activities are generally used to finance the operations of the Water Enterprise Fund and the Golf Enterprise Fund. The following table reflects the condensed net assets. The 2008 amounts have been adjusted in order to reflect prior period adjustments.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
Current and Other Assets	\$ 28,590,453	\$ 24,733,077	\$ 1,701,603	\$ 4,378,069	\$ 30,292,056	\$ 29,111,146
Capital Assets	61,722,560	61,503,962	15,534,400	14,244,012	77,256,960	75,747,974
Total Assets	<u>90,313,013</u>	<u>86,237,039</u>	<u>17,236,003</u>	<u>18,622,081</u>	<u>107,549,016</u>	<u>104,859,120</u>
Other Liabilities	17,318,703	9,963,813	1,274,709	3,037,229	18,593,412	13,001,042
Long Term Liabilities	33,575,745	37,556,336	4,850,762	4,426,919	38,426,507	41,983,255
Total Liabilities	<u>50,894,448</u>	<u>47,520,149</u>	<u>6,125,471</u>	<u>7,464,148</u>	<u>57,019,919</u>	<u>54,984,297</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	26,308,918	31,429,698	10,362,545	9,213,163	36,671,463	40,642,861
Restricted	10,580,963	7,459,677	-	-	10,580,963	7,459,677
Unrestricted	2,528,684	(172,485)	747,987	1,944,770	3,276,671	1,772,285
Total Net Assets	<u>\$ 39,418,565</u>	<u>\$ 38,716,890</u>	<u>\$ 11,110,532</u>	<u>\$ 11,157,933</u>	<u>\$ 50,529,097</u>	<u>\$ 49,874,823</u>

The net assets of the Town decreased by \$654,274. The net assets of the governmental activities decreased by \$701,675 and the net assets of the business-type activities increased by \$47,401.

### Changes in Net Assets

The following condensed financial information was derived from the government-wide Statement of Activities. It reflects how the Town's net assets have changed during the fiscal year.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 3,857,159	\$ 4,107,117	\$ 5,043,721	\$ 4,748,426	\$ 8,900,880	\$ 8,855,543
Operating Grants and Contributions	11,311,017	15,408,076	35,123	22,018	11,346,140	15,430,094
Capital Grants and Contributions	5,000,000	149,900	-	-	5,000,000	149,900
Settlement of Litigation	-	-	-	688,320	-	688,320



	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
General Revenues:						
Property Taxes	30,899,127	32,068,355	-	-	30,899,127	32,068,355
Motor Vehicle and Other Excises	2,275,977	2,334,815	-	-	2,275,977	2,334,815
Intergovernmental Not Restricted to a Specific Program	4,098,121	2,100,743	-	-	4,098,121	2,100,743
Other	680,379	625,379	-	-	680,379	625,379
<b>Total Revenues</b>	<u>58,121,780</u>	<u>56,794,385</u>	<u>5,078,844</u>	<u>5,458,764</u>	<u>63,200,624</u>	<u>62,253,149</u>
Expenses						
General Government	2,457,091	1,917,689	-	-	2,457,091	1,917,689
Public Safety	6,564,920	6,375,780	-	-	6,564,920	6,375,780
Education	28,725,927	32,229,047	-	-	28,725,927	32,229,047
Highways and Public Works	5,237,326	5,537,116	-	-	5,237,326	5,537,116
Human Services	523,976	494,306	-	-	523,976	494,306
Culture and Recreation	987,963	1,200,125	-	-	987,963	1,200,125
Fringe Benefits and Insurance	6,934,737	9,314,539	-	-	6,934,737	9,314,539
Interest on Debt Service	1,693,591	1,743,398	-	-	1,693,591	1,743,398
Water Expenses	-	-	2,566,492	3,020,985	2,566,492	3,020,985
Golf Expenses	-	-	1,195,854	1,160,649	1,195,854	1,160,649
<b>Total Expenses</b>	<u>53,125,531</u>	<u>58,812,000</u>	<u>3,762,346</u>	<u>4,181,634</u>	<u>56,887,877</u>	<u>62,993,634</u>
Increase (Decrease) in Net Assets						
Before Special Items and Transfers:	4,996,249	(2,017,615)	1,316,498	1,277,130	6,312,747	(740,485)
Special Items	104,353	85,192	-	-	104,353	85,192
Transfers	313,156	1,230,748	(313,156)	(1,229,729)	-	1,019
<b>Increase (Decrease) in Net Assets</b>	<u>\$ 5,413,758</u>	<u>\$ (701,675)</u>	<u>\$ 1,003,342</u>	<u>\$ 47,401</u>	<u>\$ 6,417,100</u>	<u>\$ (654,274)</u>

#### **Governmental Activities**

In fiscal year 2009, property taxes accounted for approximately 56% of the revenues. During fiscal year 2008, property taxes accounted for 53% of the revenues.

#### **Business-type Activities**

Water rates are structured to cover all costs related to the activity. The Water fund had a gain of \$504,595 in 2009. It had a gain in fiscal year 2008 of \$625,549. The Golf enterprise fund had a loss of \$457,194 in fiscal year 2009. It had a gain in fiscal year 2008 of \$377,793.

### **Financial Analysis of the Town's Funds**

#### **Governmental Funds**

**General Fund** – The year-end fund balances of the general fund were \$2,073,137 less than the prior year's fund balances.

Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts' Department of Revenue (DOR) determines the amount of general fund - fund balance available for appropriation. In general, this amount (commonly known as "free cash") is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations, or both.

The following table reflects the trend in all the components of fund balance of the general fund and details the certified free cash for the previous eight fiscal years.

<u>Fiscal Year</u>	<u>Reserved for Encumbrances</u>	<u>Reserved for Special Purposes</u>	<u>Designated Subsequent Year's Expenditure</u>	<u>Designated for Legal Deficits</u>	<u>Unreserved</u>	<u>Total Fund Balance</u>
2002	\$ 585,085	\$ 133,195	\$ 769,750	\$ (175,027)	\$ 1,169,455	\$ 2,482,458
2003	499,671	113,981	426,711	(304,303)	2,110,791	2,846,851
2004	365,982	-	529,131	(144,950)	915,994	1,666,157
2005	476,730	-	-	(453,709)	1,603,041	1,626,062
2006	417,098	-	105,398	(207,155)	2,271,633	2,586,974
2007	1,017,871	-	376,907	(158,133)	1,436,096	2,672,741
2008	960,394	-	-	(466,777)	2,811,440	3,305,057
2009	417,087	-	-	(449,698)	1,264,531	1,231,920

  

<u>Fiscal Year</u>	<u>Free Cash</u>
2002	\$ 203,177
2003	1,381,502
2004	(15,553)
2005	1,153,625
2006	1,717,033
2007	1,008,723
2008	1,946,045
2009	859,836

## Proprietary Funds

**Water and Golf Enterprise Funds.** The Town of North Reading, Massachusetts' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Enterprise Fund at year end was \$1,432,952. The total increase in net assets was \$504,595. Unrestricted net assets of the Hillview Enterprise Fund at the end of the year was \$511,818. The total decrease in net assets was \$457,194.

## General Fund Budgetary Highlights

The differences between the original budget and the final amended budget relate to special town meetings and reserve fund transfers made after June 30, 2009.

## Capital Asset and Debt Administration

**Capital assets.** The Town of North Reading, Massachusetts' investments in capital assets for its governmental and business type activities as of June 30, 2009, amounts to \$75,747,974 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

Major capital asset events during the current fiscal year included the following:

- DPW Dump Truck (\$135,848)
- Senior Van (\$43,995)
- Renovation of Maguire Park (\$107,556)

**Capital Assets at June 30, 2009**  
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
Assets not Being Depreciated	\$ 18,230,682	\$ 19,201,973	\$ 4,311,766	\$ 3,451,760	\$ 22,542,448	\$ 22,653,733
Assets Being Depreciated:						
Buildings	39,326,988	38,366,994	1,248,010	1,200,218	40,574,998	39,567,212
Improvements Other Than Buildings	564,332	622,374	992,597	938,634	1,556,929	1,561,008
Infrastructure	1,471,436	1,274,490	8,744,346	8,436,194	10,215,782	9,710,684
Equipment	649,654	596,119	134,586	129,286	784,240	725,405
Vehicles	1,479,468	1,442,012	103,095	87,920	1,582,563	1,529,932
Total	<u>\$ 61,722,560</u>	<u>\$ 61,503,962</u>	<u>\$ 15,534,400</u>	<u>\$ 14,244,012</u>	<u>\$ 77,256,960</u>	<u>\$ 75,747,974</u>

***Debt***

The Town had \$38,924,680 in bonds, outstanding on June 30, 2009. This represents a \$737,631 increase or 2% increase from the previous year.

The Town's bond rating by Moody's Investor Services is A1.

	<u>2008</u>	<u>2009</u>
<b>Governmental Activities</b>		
General Obligation Bonds Payable	\$ 32,587,194	\$33,893,831
<b>Business-type Activities</b>		
General Obligation Bonds Payable	<u>5,599,855</u>	<u>5,030,849</u>
Total Debt	<u>\$ 38,187,049</u>	<u>\$38,924,680</u>

**Fiscal Year 2010 Budget**

An initiative state statute, commonly known as "Proposition 2 ½", limits the amount of property taxes that Town can assess in any one year. In general, the Town's property tax levy may increase by 2 ½ percent over the prior year's tax levy, plus any additional amount derived by new developments or other changes made to existing property. If a community wishes to levy taxes above the limitations imposed by "Proposition 2 ½", it is necessary to obtain the approval of a majority of the voters at an election.

Potential decreases in state aid and increased fixed costs (i.e. health insurance premiums) put pressure to hold other costs down. The Town utilized approximately \$2,974,785 of its reserves in the governmental funds to fund the 2010 budget.

Any 2010 budget problems will be addressed by interdepartmental or free cash transfers at the April Town Meeting. Additionally, funds are available in the Town's Reserve Fund for fiscal year 2010 departmental budgets.

Town of North Reading, Massachusetts  
Statement of Net Assets  
June 30, 2009  
(Continued on Page 10)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	<u>Total</u>
<b>Assets</b>			
Current:			
Cash/Investments	\$ 16,835,208	\$ 3,911,130	\$ 20,746,338
Petty Cash	585	-	585
Accounts Receivable:			
Property Taxes	656,783	-	656,783
Tax Liens	631,596	18,074	649,670
Excises	137,210	-	137,210
User Charges	253,306	427,717	681,023
Liens	12,255	21,148	33,403
Intergovernmental	1,052,876	-	1,052,876
Noncurrent:			
Accounts Receivable:			
Intergovernmental	5,079,798	-	5,079,798
Deferred Property Taxes	23,429	-	23,429
Deferred Special Assessments	50,031	-	50,031
Capital Assets:			
Assets Not Being Depreciated	19,201,973	3,451,760	22,653,733
Assets Being Depreciated, Net	42,301,989	10,792,252	53,094,241
	<hr/>	<hr/>	<hr/>
Total Assets	86,237,039	18,622,081	104,859,120
	<hr/>	<hr/>	<hr/>
<b>Liabilities</b>			
Current:			
Warrants Payable	648,999	13,486	662,485
Accounts Payable	-	119,517	119,517
Accrued Salaries Payable	1,856,813	12,957	1,869,770
Employees' Withholding Payable	362,259	-	362,259
Due to Individuals	(28,886)	-	(28,886)
Due to Other Governments	6,907	-	6,907
Unclaimed Checks	83,018	-	83,018
Guarantee Deposits	301,801	29,748	331,549
Accrued Interest Payable	347,217	43,923	391,140
Other Liabilities	89,847	-	89,847
Bonds Payable	2,761,763	777,598	3,539,361
Bond Anticipation Notes Payable	3,534,075	2,040,000	5,574,075
Noncurrent:			
Bonds Payable	31,132,068	4,253,251	35,385,319
Other Post Employment Benefit Obligations	2,559,214	38,738	2,597,952
Due to Other Governments	155,239	-	155,239
Compensated Absences	3,709,815	134,930	3,844,745
	<hr/>	<hr/>	<hr/>
Total Liabilities	47,520,149	7,464,148	54,984,297
	<hr/>	<hr/>	<hr/>

Town of North Reading, Massachusetts  
Statement of Net Assets  
June 30, 2009  
(Continued from Page 9)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	<u>Total</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	31,429,698	9,213,163	40,642,861
Restricted for:			
Special Revenue	6,617,905	-	6,617,905
Perpetual Funds:			
Expendable	215,280	-	215,280
Nonexpendable	626,492	-	626,492
Unrestricted	<u>(172,485)</u>	<u>1,944,770</u>	<u>1,772,285</u>
Total Net Assets	<u>\$ 38,716,890</u>	<u>\$ 11,157,933</u>	<u>\$ 49,874,823</u>

Town of North Reading, Massachusetts  
Statement of Activities  
Fiscal Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for	Operating	Capital	Governmental	Business -	Total
		Services	Grants and	Grants and	Activities	Type	
			Contributions	Contributions		Activities	
<b>Primary Government:</b>							
<i>Governmental Activities:</i>							
General Government	\$ 1,917,689	\$ 451,548	\$ 126,308	\$ 99,900	\$ (1,239,933)	\$ -	\$ (1,239,933)
Public Safety	6,375,780	481,572	229,977	-	(5,664,231)	-	(5,664,231)
Education	32,229,047	1,700,128	14,738,938	-	(15,789,981)	-	(15,789,981)
Highways and Public Works	5,537,116	1,022,842	85,813	-	(4,428,461)	-	(4,428,461)
Human Services	494,306	42,604	71,516	-	(380,186)	-	(380,186)
Culture and Recreation	1,200,125	408,423	155,524	50,000	(586,178)	-	(586,178)
Fringe Benefits and Insurance	9,314,539	-	-	-	(9,314,539)	-	(9,314,539)
Interest on Debt Service	1,743,398	-	-	-	(1,743,398)	-	(1,743,398)
Total Governmental Activities	58,812,000	4,107,117	15,408,076	149,900	(39,146,907)	-	(39,146,907)
<i>Business-Type Activities:</i>							
Golf	1,160,649	1,716,672	6,512	-	-	562,535	562,535
Water Services	3,020,985	3,031,754	15,506	-	-	26,275	26,275
Total Business-Type Activities	4,181,634	4,748,426	22,018	-	-	588,810	588,810
Total Primary Government	\$ 62,993,634	\$ 8,855,543	\$ 15,430,094	\$ 149,900	(39,146,907)	588,810	(38,558,097)
<i>General Revenues:</i>							
Property Taxes					32,068,355	-	32,068,355
Motor Vehicle and Other Excise Taxes					2,334,815	-	2,334,815
Penalties and Interest on Taxes					237,371	-	237,371
Other Taxes, Assessments and in Lieu of Payments					253,657	-	253,657
Intergovernmental					2,100,743	-	2,100,743
Interest and Investment Income					122,361	-	122,361
Other Revenue					1,140	-	1,140
Contributions to Permanent Funds					10,850	-	10,850
Special Items:							
Premium on Sale of Debt					85,192	-	85,192
Settlement of Litigation					-	688,320	688,320
Transfers, Net					1,230,748	(1,229,729)	1,019
Total General Revenues, Special Items and Transfers					38,445,232	(541,409)	37,903,823
Change in Net Assets					(701,675)	47,401	(654,274)
<i>Net Assets:</i>							
Beginning of the Year					38,958,953	11,110,532	50,069,485
Prior Period Adjustment					459,612	-	459,612
Adjusted Beginning of the Year					39,418,565	11,110,532	50,529,097
End of the Year					\$ 38,716,890	\$ 11,157,933	\$ 49,874,823

Town of North Reading, Massachusetts  
Balance Sheet  
Governmental Funds  
June 30, 2009  
(Continued on Page 13)

	<u>General</u>	<u>Batchelder School Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash/Investments	\$ 4,216,521	\$ 20,760	\$ 12,597,927	\$ 16,835,208
Petty Cash	585	-	-	585
Receivables:				
Property Taxes	656,783	-	-	656,783
Tax Liens	631,596	-	-	631,596
Excises	137,210	-	-	137,210
User Charges	57,293	-	196,013	253,306
Deferred Property Taxes	23,429	-	-	23,429
Other Liens	12,255	-	-	12,255
Intergovernmental	5,792,542	-	340,132	6,132,674
Special Assessments	-	-	50,031	50,031
Tax Foreclosures	268,931	-	-	268,931
Total Assets	<u>\$11,797,145</u>	<u>\$ 20,760</u>	<u>\$ 13,184,103</u>	<u>\$ 25,002,008</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Warrants Payable	\$ 574,617	\$ -	\$ 74,382	\$ 648,999
Accrued Salaries Payable	1,856,813	-	-	1,856,813
Employees' Withholding Payable	362,259	-	-	362,259
Due to Individuals	(28,886)	-	-	(28,886)
Due to Other Governments	6,907	-	-	6,907
Unclaimed Checks	50,518	-	32,500	83,018
Guarantee Deposits	301,801	-	-	301,801
Other Liabilities	-	-	89,847	89,847
Bonds Anticipation Notes Payable	-	2,686,000	848,075	3,534,075
Deferred Revenue:				
Property Taxes	550,483	-	-	550,483
Taxes and User Charges Paid in Advance	9,710	-	-	9,710
Deferred Property Taxes	23,429	-	-	23,429
Liens	643,850	-	-	643,850
Excises	94,958	-	-	94,958
Special Assessments	-	-	50,031	50,031
Tax Foreclosures	268,931	-	-	268,931
User Charges	57,293	-	196,013	253,306
Intergovernmental	5,792,542	-	312,440	6,104,982
Total Liabilities	<u>10,565,225</u>	<u>2,686,000</u>	<u>1,603,288</u>	<u>14,854,513</u>

Town of North Reading, Massachusetts  
Balance Sheet  
Governmental Funds  
June 30, 2009  
(Continued from Page 12)

	<u>General</u>	Batchelder School <u>Capital Project</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Fund Equity:				
Fund Balances:				
Reserved for Encumbrances	417,087	-	22,074	439,161
Reserved for Perpetual Permanent Funds	-	-	626,492	626,492
Unreserved:				
Designated for:				
Subsequent Year's Expenditures	-	-	459,693	459,693
Appropriation Deficits	(449,698)	-	-	(449,698)
Undesignated, Reported in:				
General Fund	1,264,531	-	-	1,264,531
Special Revenue Fund	-	-	10,122,693	10,122,693
Capital Projects Fund	-	(2,665,240)	134,583	(2,530,657)
Permanent Fund	-	-	215,280	215,280
Total Fund Balances	<u>1,231,920</u>	<u>(2,665,240)</u>	<u>11,580,815</u>	<u>10,147,495</u>
 Total Liabilities and Fund Balances	 <u><u>\$11,797,145</u></u>	 <u><u>\$ 20,760</u></u>	 <u><u>\$ 13,184,103</u></u>	 <u><u>\$ 25,002,008</u></u>



Town of North Reading, Massachusetts  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Fiscal Year Ended June 30, 2009

	<u>General</u>	<u>Batchelder School Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 32,147,684	\$ -	\$ -	\$ 32,147,684
Tax Liens	147,411	-	-	147,411
Excises	2,016,117	-	-	2,016,117
Penalties and Interest	237,371	-	-	237,371
Licenses and Permits	441,438	-	-	441,438
Fees and Other Departmental	203,555	-	-	203,555
Intergovernmental	12,594,934	-	5,714,472	18,309,406
Charges for Services	946,325	-	2,591,895	3,538,220
Fines and Forfeits	13,455	-	-	13,455
Earnings on Investments	122,361	-	16,676	139,037
In Lieu of Taxes	253,657	-	-	253,657
Contributions	-	-	215,445	215,445
Miscellaneous	25,336	-	216,410	241,746
Total Revenues	<u>49,149,644</u>	<u>-</u>	<u>8,754,898</u>	<u>57,904,542</u>
<u>Expenditures:</u>				
General Government	2,156,804	-	184,425	2,341,229
Public Safety	5,520,721	-	206,061	5,726,782
Education	27,044,963	49,997	3,740,356	30,835,316
Intergovernmental	178,666	-	-	178,666
Highways and Public Works	3,767,350	-	1,567,739	5,335,089
Human Services	484,545	-	62,786	547,331
Culture and Recreation	548,675	-	640,521	1,189,196
Employee Benefits and Insurance	6,755,325	-	-	6,755,325
Debt Service	4,225,364	-	-	4,225,364
Total Expenditures	<u>50,682,413</u>	<u>49,997</u>	<u>6,401,888</u>	<u>57,134,298</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,532,769)</u>	<u>(49,997)</u>	<u>2,353,010</u>	<u>770,244</u>
<u>Other Financing Sources (Uses):</u>				
Operating Transfers In	1,576,632	5,000,000	2,301,892	8,878,524
Operating Transfers (Out)	(2,117,000)	-	(6,394,592)	(8,511,592)
Proceeds from Bonds	-	-	3,815,000	3,815,000
Total Other Financing Sources (Uses)	<u>(540,368)</u>	<u>5,000,000</u>	<u>(277,700)</u>	<u>4,181,932</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(2,073,137)</u>	<u>4,950,003</u>	<u>2,075,310</u>	<u>4,952,176</u>
Fund Balance, Beginning	<u>3,305,057</u>	<u>(4,853,218)</u>	<u>6,743,480</u>	<u>5,195,319</u>
Prior Period Adjustment	<u>-</u>	<u>(2,762,025)</u>	<u>2,762,025</u>	<u>-</u>
Fund Balance, Beginning as Restated	<u>3,305,057</u>	<u>(7,615,243)</u>	<u>9,505,505</u>	<u>5,195,319</u>
Fund Balance, Ending	<u>\$ 1,231,920</u>	<u>\$ (2,665,240)</u>	<u>\$ 11,580,815</u>	<u>\$ 10,147,495</u>

Town of North Reading, Massachusetts  
Reconciliation of the Governmental Funds Balance Sheet  
Total Fund Balances to the Statement of Net Assets  
Fiscal Year Ended June 30, 2009

Total Governmental Fund Balances	\$ 10,147,495
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	61,503,962
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	7,730,749
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(33,893,831)
Other Post Employment Benefit Obligations	(2,559,214)
Due to Other Governments	(155,239)
Accrued Interest on Bonds	(347,217)
Compensated Absences	<u>(3,709,815)</u>
Net Assets of Governmental Activities	<u>\$ 38,716,890</u>

Town of North Reading, Massachusetts  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
Fiscal Year Ended June 30, 2009

Net change in fund balances - total governmental funds	\$ 4,952,176
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays and the contribution of assets exceeded depreciation in the current period.	(218,598)
Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	(1,174,865)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,306,637)
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds, interest is not reported until due. This amount represents the change from the prior year's accrual.	(26,397)
Some expenses reported in the Statement of Activities, such as compensated absences and other postemployment benefits payable do not require the use of current financial resources and , therefore, are not reported as expenditures in the governmental funds. This amount represents the change from the prior year's accrual.	(2,927,354)
Change in net assets of governmental activities	<u>\$ (701,675)</u>

Town of North Reading, Massachusetts  
Statement of Net Assets  
Proprietary Funds  
June 30, 2009

	Business-Type Activities <u>Enterprise Funds</u>	
	<u>Water</u>	<u>Hillview</u>
<b>Assets</b>		
Current:		
Cash and Cash Investments	\$ 1,333,714	\$ 2,577,416
Receivables, Net of Allowance for Uncollectibles:		
User Charges	427,717	-
Tax Liens	18,074	-
Liens	21,148	-
Noncurrent:		
Accounts Receivable:		
Assets Not Being Depreciated	481,186	2,970,574
Assets Being Depreciated, Net	8,512,562	2,279,690
Total Assets	<u>10,794,401</u>	<u>7,827,680</u>
<b>Liabilities</b>		
Current:		
Warrants Payable	4,111	9,375
Accounts Payable	119,517	-
Accrued Wages Payable	12,501	456
Guarantee Deposits	-	29,748
Accrued Interest Payable	27,216	16,707
Bond Anticipation Notes Payable	40,000	2,000,000
Bonds Payable	372,598	405,000
Noncurrent:		
Bonds Payable	2,553,251	1,700,000
Other Post Employment Benefits Payable	34,292	4,446
Compensated Absences	130,064	4,866
Total Liabilities	<u>3,293,550</u>	<u>4,170,598</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	6,067,899	3,145,264
Unrestricted	1,432,952	511,818
Total Net Assets	<u>\$ 7,500,851</u>	<u>\$ 3,657,082</u>

Town of North Reading, Massachusetts  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
Fiscal Year Ended June 30, 2009

	<u>Enterprise Funds</u>	
	<u>Water</u>	<u>Hillview</u>
Operating Revenues:		
Charges for Services	\$ 3,031,754	\$ 1,576,683
Departmental	-	139,989
Miscellaneous	-	2,307
Total Operating Revenues	<u>3,031,754</u>	<u>1,718,979</u>
Operating Expenditures:		
Personal Services	689,604	25,222
Nonpersonal Services	1,907,097	870,006
Depreciation	320,529	168,984
Total Operating Expenditures	<u>2,917,230</u>	<u>1,064,212</u>
Operating Income	<u>114,524</u>	<u>654,767</u>
Nonoperating Revenues (Expenses):		
Intergovernmental	8,608	-
Earnings on Investments	6,898	4,205
Settlement of litigations	688,320	-
Interest on Debt	(103,755)	(96,437)
Total Nonoperating Revenues (Expenses)	<u>600,071</u>	<u>(92,232)</u>
Income Before Operating Transfers	<u>714,595</u>	<u>562,535</u>
Transfers out - Capital Assets	-	(863,816)
Operating Transfers Out	(210,000)	(155,913)
Total Transfers	<u>(210,000)</u>	<u>(1,019,729)</u>
Change in Net Assets	<u>504,595</u>	<u>(457,194)</u>
Net Assets, July 1, 2008	<u>6,996,256</u>	<u>4,114,276</u>
Net Assets June 30, 2009	<u>\$ 7,500,851</u>	<u>\$ 3,657,082</u>

Town of North Reading, Massachusetts  
Statement of Cash Flows  
Proprietary Fund  
Fiscal Year Ended June 30, 2009

	<u>Water</u>	<u>Hillview</u>
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 2,915,564	\$ 1,718,979
Payments to Employees	(669,147)	(23,705)
Payments to Vendors	(1,767,286)	(948,939)
Net Cash Flows Provided (Used) by Operating Activities	<u>479,131</u>	<u>746,335</u>
Cash Flows from Non Capital Related Financing Activities:		
Miscellaneous	688,320	-
Transfers from (to) Other Funds (Net)	(210,000)	(155,913)
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>478,320</u>	<u>(155,913)</u>
Cash Flows from Capital and Related Financing Activities:		
Payments on Bond Anticipation Notes	(270,000)	-
Proceeds from Bonds	270,000	-
Proceeds from Bond Anticipation Notes	40,000	2,000,000
Principal Payments on Bonds	(354,424)	(480,000)
Interest Payments	(98,796)	(99,964)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(413,220)</u>	<u>1,420,036</u>
Cash Flows from Investing Activities:		
Earnings on Investments	1,382	4,205
Net Cash Flows Provided (Used) by Investing Activities	<u>1,382</u>	<u>4,205</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>545,613</u>	<u>2,014,663</u>
Cash and Cash Equivalents, July 1, 2008	788,101	562,753
Cash and Cash Equivalents, June 30, 2009	<u><u>\$ 1,333,714</u></u>	<u><u>\$ 2,577,416</u></u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 114,524	\$ 654,767
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	320,529	168,984
Assets Acquired	(3,810)	(59,131)
(Increase) Decrease in Accounts Receivable	(116,190)	-
Increase (Decrease) in Compensated Absences	7,956	1,061
Increase (Decrease) in Other Payables	143,621	(19,802)
Net Cash Provided by Operating Activities	<u><u>\$ 479,131</u></u>	<u><u>\$ 746,335</u></u>

Town of North Reading, Massachusetts  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2009

	Private-Purpose Trust
<b>Assets</b>	
Cash and Cash Investments	\$ 271,824
	<hr/>
Total Assets	271,824
	<hr/>
<b>Liabilities</b>	-
	<hr/>
Total Liabilities	-
	<hr/>
<b>Net Assets</b>	
Held in Trust for Scholarships	271,824
	<hr/>
Total Net Assets	\$ 271,824
	<hr/> <hr/>

Town of North Reading, Massachusetts  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Fiscal Year Ended June 30, 2009

Additions:

Interest, Dividends, and Other	<u>\$ 2,029</u>
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Total Additions	<u>2,029</u>
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Deductions:

Scholarships Awarded	<u>4,350</u>
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Income Before Operating Transfers	<u>(2,321)</u>
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Change in Net Assets	<u>(2,321)</u>
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Net Assets:

Beginning of the Year	<u>274,145</u>
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End of the Year	<u><u>\$271,824</u></u>
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Town of North Reading, Massachusetts  
Notes to the Financial Statements  
June 30, 2009

**I. Summary of Significant Accounting Policies**

The accounting policies of the Town of North Reading, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2009, conform to accounting principles generally accepted in the United States of America for local government units, except as indicated hereafter. In accounting and reporting on its enterprise fund, the Town has elected to apply all Governmental Accounting Standards Board (“GASB”) pronouncements as well as Financial Accounting Standards Board pronouncements issued prior to November 30, 1989, unless those pronouncements contradict GASB pronouncements, in which case, GASB prevails.

The more significant accounting policies of the Town are summarized below.

(A) Reporting Entity

The Town's basic financial statements include the operations of all organizations for which the Board of Selectmen exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Based on the aforementioned oversight criteria, the Town was the only entity included in the accompanying basic financial statements.

(B) Government-wide and fund financial statements

The **government-wide financial statements** (i.e., the **statement of net assets** and the **statement of activities**) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise tax and amounts due under grants. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, accumulated sick pay, and other employee amounts which are not to be liquidated from expendable and available resources; and (2) debt service expenditures which are recognized when due.

Agency fund assets and liabilities are accounted for on the modified accrual basis of accounting.

The Town reports the following major governmental funds:

**General Fund** – This is the Town’s general operating fund. It accounts for all financial resources of the general government except those required to be accounting for in another fund.

**Batchelder School Capital Project Fund** - This fund captures the activity related to the Batchelder School’s renovation project.

The Town reports the following major proprietary funds:

**Water Fund** – This fund is used to account for the activities related to the water distribution system.

**Hillview Golf Fund** – This fund is used to account for the Town’s golf course and certain other recreational facilities.

(D) Assets, Liabilities and Net Assets or Equity

i Deposits and Investments

The Town’s cash and cash equivalents are considered to be demand deposits and certificates of deposits.

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government (or its agencies) that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Municipal Depository Trust (“MMDT”).

Certain governmental funds (primarily trust funds) have broader investment powers which allow investments in common stocks, corporate bonds and other types of investments.

ii Property Taxes

The Town’s fiscal year runs from July 1 to June 30. Taxes are levied to the owner of record on the preceding January 1. The Town bills property taxes on a quarterly basis. Quarterly payments are due on August 1, November 1, February 1 and May 1. Property taxes attach as enforceable liens on property as of July 1 of the next fiscal year.

The Town is permitted under state law to levy property taxes up to 2.5% of the full and fair cash value of the Town’s property. In addition, the law limits the amount by which the total property tax levy can be increased to 2.5% of the preceding year’s levy plus any new growth.

iii Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The statement of net assets for the enterprise funds also reports capital assets. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Equipment	5-15
Improvements	20-40
Infrastructure	40-50
Vehicles	5-15

iv Compensated Absences

The liabilities for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated annual vacation and sick leave benefits. The liabilities have been calculated using the vesting method, in which leave amounts for employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

v Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

vi Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

In the fund financial statements fund equity is comprised of the following:

Fund Balances

(a) Reserved for Encumbrances

Appropriations for certain projects and specific items not fully expended at year end are carried forward as reserved for encumbrances to the next year. At year end, reserved for encumbrances is reported as a component of fund balance.

(b) Reserved for Perpetual Permanent Funds

This account represents the principal portion of cash invested in the nonexpendable trust funds. Only the income earned from investing these funds can be expended for purposes specified in the trust instrument.

(c) Designated for Subsequent Year's Expenditures

This account represents amounts transferred (by Town meeting votes) from other fund balance accounts to fund the subsequent year's budget.

(d) Designated for Appropriation Deficits

This account reflects a legal deficit in the snow and ice appropriation account. The deficit was raised on the 2010 recap sheet.

vii Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of

the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

viii Warrants Payable

The balance in this account consists of those warrants approved by the Selectmen for payment between July 1, 2009 and July 15, 2009. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2009 and the corresponding credit is to the account entitled warrants payable.

II Stewardship, Compliance and Accountability

(A) Budgetary Information

i General Budget Policies

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January, February and March of each year. The Selectmen and Finance Committee have until June, which is when the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations. Encumbrances still open at year end are reported as a reservation of fund balance or retained earnings. Encumbrances do not constitute expenditures or liabilities.

ii Budget Basis of Accounting

The final budget appearing in the required supplementary information section of the financial statements is taken from the Town's annual recap sheet and includes those amounts which pertain to fiscal 2009 adjusted for any special Town meeting votes applicable to fiscal 2009 and reserve fund transfers authorized by the Finance Committee.

The following reconciliation summarizes the differences between the budget basis and the Generally Accepted Accounting Principles (GAAP) basis (in the fund financial statements) for the year ended June 30, 2009.

	<u>Revenues</u>
As Reported Budget Basis	\$ 45,530,046
Adjustments:	
Sixty Day Revenue Accrual - Net	(282,526)
In Lieu of Tax from Golf Reclassified as a Transfer	(105,913)
On Behalf Payments Included in Intergovernmental	4,008,037
As Reported GAAP Statement	<u>\$ 49,149,644</u>

	<u>Expenditures</u>
As Reported Budget Basis	\$ 46,131,069
Adjustments:	
July 1, 2008 Encumbrances	960,394
June 30, 2009 Encumbrances	(417,087)
On Behalf Payments Included in Employee Benefits	4,008,037
As Reported GAAP Statement	<u>\$ 50,682,413</u>

### III Detailed Notes on All Funds

#### Deposits

##### Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2009, \$7,209,926 of the Town's bank balance of \$19,623,723 was exposed to credit risk as follows:

Uninsured and Uncollateralized    \$ 7,209,926

#### Investments

As of June 30, 2009, the Town had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>5-10</u>
U. S. Government Obligations	\$ 730,103		\$ 730,103	\$ -
Corporate Bonds	212,183	-	212,183	-
Total	<u>\$ 942,286</u>	<u>\$ -</u>	<u>\$ 942,286</u>	<u>\$ -</u>

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth of Massachusetts has an investment "legal list" that the Town follows.

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town does not have a formal policy that limits the amount it may invest in a single issuer.

## B. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Government Activities:				
Assets not Being Depreciated				
Land	\$ 18,117,550	\$ 978,358	\$ -	\$ 19,095,908
Work In Process	113,132	34,250	(41,317)	106,065
Total Capital Assets Not Being Depreciated	<u>18,230,682</u>	<u>1,012,608</u>	<u>(41,317)</u>	<u>19,201,973</u>
Assets Being Depreciated:				
Buildings	57,127,138	646,554	-	57,773,692
Improvements Other Than Buildings	1,079,808	107,556	-	1,187,364
Infrastructure	11,318,452	82,732	-	11,401,184
Equipment	1,461,975	53,063	(31,837)	1,483,201
Vehicles	3,897,764	272,803	(185,214)	3,985,353
Total Capital Assets Being Depreciated	<u>74,885,137</u>	<u>1,162,708</u>	<u>(217,051)</u>	<u>75,830,794</u>
Less Accumulated Depreciation for:				
Buildings	(17,800,150)	(1,606,548)	-	(19,406,698)
Improvements Other Than Buildings	(515,476)	(49,514)	-	(564,990)
Infrastructure	(9,847,016)	(279,678)	-	(10,126,694)
Equipment	(812,321)	(106,598)	31,837	(887,082)
Vehicles	(2,418,296)	(310,259)	185,214	(2,543,341)
Total Accumulated Depreciation	<u>(31,393,259)</u>	<u>(2,352,597)</u>	<u>217,051</u>	<u>(33,528,805)</u>
Capital Assets Being Depreciated, Net	<u>43,491,878</u>	<u>(1,189,889)</u>	<u>-</u>	<u>42,301,989</u>
Governmental Activities Capital Assets, Net	<u>\$ 61,722,560</u>	<u>\$ (177,281)</u>	<u>\$ (41,317)</u>	<u>\$ 61,503,962</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General government	\$ 18,006
Public safety	470,513
Education	1,299,745
Highways and Public works	443,190
Human Services	4,400
Culture and Recreation	116,743
Total Governmental Activities Depreciation Expense	<u>\$ 2,352,597</u>

B. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Business-Type Activities:				
Assets Not Being Depreciated				
Land	\$ 4,311,766	\$ -	\$ (863,816)	\$ 3,447,950
Work in Process	-	3,810	-	3,810
	<u>4,311,766</u>	<u>3,810</u>	<u>(863,816)</u>	<u>3,451,760</u>
Assets Being Depreciated:				
Buildings	2,211,876	21,800	-	2,233,676
Improvements Other Than Buildings	1,769,665	14,260	-	1,783,925
Infrastructure	15,054,731	-	-	15,054,731
Equipment	519,473	23,070	-	542,543
Vehicles	261,557	-	-	261,557
Total Capital Assets Being Depreciated	<u>19,817,302</u>	<u>59,130</u>	<u>-</u>	<u>19,876,432</u>
Less Accumulated Depreciation for:				
Buildings	(963,866)	(69,592)	-	(1,033,458)
Improvements Other Than Buildings	(777,068)	(68,223)	-	(845,291)
Infrastructure	(6,310,385)	(308,152)	-	(6,618,537)
Equipment	(384,887)	(28,370)	-	(413,257)
Vehicles	(158,462)	(15,175)	-	(173,637)
Total Accumulated Depreciation	<u>(8,594,668)</u>	<u>(489,512)</u>	<u>-</u>	<u>(9,084,180)</u>
Capital Assets Being Depreciated, Net	<u>11,222,634</u>	<u>(430,382)</u>	<u>-</u>	<u>10,792,252</u>
Business Type Activities Capital Assets, Net	<u>\$ 15,534,400</u>	<u>\$ (426,572)</u>	<u>\$ (863,816)</u>	<u>\$ 14,244,012</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Water	\$ 320,529
Hillview Golf	168,983
Total Business-Type Activities Depreciation Expense	<u>\$ 489,512</u>

C. Accounts Receivable

The accounts receivable on the Statement of Net Assets are listed below by levy.

**Governmental Activities**

Property Taxes Receivable:

Real Estate Taxes	
2009	\$ 607,258
2008	9,355
2005	3,667



C. Accounts Receivable (Continued)

2002	147	
2001	3,300	
2000	349	
Total Real Estate Taxes		<u>624,076</u>
Personal Property Taxes		
2009	7,069	
2008	6,656	
2007	4,079	
2006	3,180	
Total Personal Property Taxes		<u>20,984</u>
Rollback Taxes		<u>3,120</u>
Supplemental Tax Assessment		<u>8,603</u>
Total Property Taxes Receivable		<u>\$ 656,783</u>
Tax Liens		<u>\$ 631,596</u>
Excise Taxes Receivable:		
Motor Vehicle Excise Tax		
2009	\$ 80,082	
2008	27,121	
2007	17,139	
2006	12,868	
Total Motor Vehicle Excise Tax		<u>\$ 137,210</u>
Tax Excise Receivable		
User Charges:		
Trash Fees	\$ 57,293	
Ambulance	196,013	
Total User Charges		<u>\$ 253,306</u>

C. Accounts Receivable (Continued)

Light Liens		
2009	\$ 2,846	
2002	752	
2001	1,343	
2000	906	
	<hr/>	
Total Light Liens		<hr/> 5,847
Trash Liens		
2009	6,408	
	<hr/>	
Total Trash Liens:		<hr/> 6,408
Total Liens		<hr/> <hr/> \$ 12,255
<u>Intergovernmental:</u>		
Current:		
Due from Commonwealth of Massachusetts:		
Highways and Other Public Works Grants	\$ 190,756	
Various Federal Grants	149,376	
School Building Assistance Bureau Grant	712,744	
	<hr/>	
Total Current		<hr/> 1,052,876
Noncurrent:		
School Building Assistance Bureau Grant	5,079,798	
	<hr/>	
Total Intergovernmental		<hr/> <hr/> \$ 6,132,674
Deferred Property Taxes		
Clause 41 A		<hr/> <hr/> \$ 23,429
Special Assessments:		
Septic Betterments		<hr/> <hr/> \$ 50,031
<u>Business Type Activities</u>		
Current:		
User Charges:		
Water		<hr/> <hr/> \$ 427,717

C. Accounts Receivable (Continued)

Water Liens:

2009	\$ 21,009
2002	139

Total Water Liens	\$ 21,148
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Water Tax Liens:

2009	\$ 18,074
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Total Water Tax Liens	\$ 18,074
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D. Debt

i Short Term Debt

Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2009 as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Balance Beginning of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End of Year</u>	<u>Maturity Date</u>
<u>Governmental Activities:</u>						
School Construction	2.50%	\$7,686,000	\$2,686,000	\$7,686,000	\$2,686,000	9/18/2009
Asbestos Abatement - Little School	2.50%	0	60,000	0	60,000	9/18/2009
Flint Memorial Library - Painting	2.50%	0	61,000	0	61,000	9/18/2009
Senior Center Van	2.50%	0	44,075	0	44,075	9/18/2009
Eisenhower Pond Park		1,095,334	0	1,095,334	0	
Public Work - Dump Truck	2.50%	0	136,000	0	136,000	9/18/2009
Public Work - Road Program	2.50%	0	250,000	0	250,000	9/18/2009
Public Work - Cemetery Upgrade	2.50%	0	60,000	0	60,000	9/18/2009
Public Work - Pick up	2.50%	0	39,000	0	39,000	9/18/2009
Land Acquisition		1,361,775	0	1,361,775	0	
Roads		250,000	0	250,000	0	
Park Street Bridge		100,440	0	100,440	0	
Town Hall Roof		650,000	0	650,000	0	
Technology		100,000	0	100,000	0	
Town Hall Generator		40,000	0	40,000	0	
School Building Alarm	2.50%	150,000	150,000	150,000	150,000	9/18/2009
DPW Hydraulic Lift		55,000	0	55,000	0	
Municipal Department Vehicles	2.50%	0	48,000	0	48,000	9/18/2009
Total		<u>\$11,488,549</u>	<u>\$3,534,075</u>	<u>\$11,488,549</u>	<u>\$3,534,075</u>	

D. Debt (Continued)

<u>Purpose</u>	<u>Interest Rate</u>	<u>Balance Beginning of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End of Year</u>	<u>Maturity Date</u>
<u>Business-type Activities:</u>						
Water Treatment Plant Improvements	2.50%	\$0	\$40,000	\$0	\$40,000	9/18/2009
Turf Field - Hillview	2.50%	0	2,000,000	0	2,000,000	9/18/2009
Water		180,000	0	180,000	0	
Well		50,000	0	50,000	0	
Water Filters		<u>40,000</u>	<u>0</u>	<u>40,000</u>	<u>0</u>	
Total		<u>\$270,000</u>	<u>\$2,040,000</u>	<u>\$270,000</u>	<u>\$2,040,000</u>	

ii Long Term Debt

General obligation bonds outstanding at June 30, 2009, bear interest at various rates.

- (a) Changes in Long Term Debt - the following is a summary of bond transactions for the year ended June 30, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Balance 7/01/08	\$32,587,194	\$5,599,855	\$ 38,187,049
Add: New Issues	3,815,000	270,000	4,085,000
Less: Maturities	<u>(2,508,363)</u>	<u>(839,006)</u>	<u>(3,347,369)</u>
Balance 6/30/09	<u>\$33,893,831</u>	<u>\$5,030,849</u>	<u>\$ 38,924,680</u>

- (b) Summary of Debt Service Requirements to Maturity

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$2,761,763	\$1,294,019	\$777,598	\$183,844
2011	2,692,327	1,188,234	773,326	152,437
2012	2,652,749	1,091,752	564,077	124,741
2013	2,493,187	996,663	484,848	104,239
2014	2,258,826	906,211	369,000	88,318
2015 - 2019	10,509,979	3,257,241	1,397,000	251,645
2020 - 2024	8,640,000	1,242,533	560,000	70,713
2025 - 2029	<u>1,885,000</u>	<u>118,450</u>	<u>105,000</u>	<u>4,313</u>
	<u>\$33,893,831</u>	<u>\$10,095,103</u>	<u>\$5,030,849</u>	<u>\$980,250</u>

## D. Debt (Continued)

### (c) Subsidies through the Massachusetts Water Pollution Abatement Trust

The Massachusetts Water Pollution Abatement Trust (the Trust) was created by Chapter 275 of the Acts of 1989 to implement the State Revolving Fund Program (SRF) contemplated by the Title VI of the Federal Clean Water Act.

The Trust administers a SRF program which includes both a federal and state capitalized revolving funds. Loans are made from the fund to local governmental units to finance the costs of eligible water pollution abatement programs.

Local governments obtain financing through the SRF and receive subsidies, but are obligated for the entire amount of the debt. The Town has borrowed four issues through the program. Subsidies which will be utilized to offset the principal and interest debt service costs disclosed in the summary above are noted below:

	<u>SRF Subsidies</u>	
	<u>General</u>	
	<u>Government</u>	<u>Enterprise</u>
2010	\$5,997	\$13,595
2011	5,799	13,078
2012	5,595	12,544
2013	5,384	12,085
2014	5,167	10,762
2015 - 2019	22,155	36,963
2020 - 2024	15,342	0
2025 - 2029	<u>1,654</u>	<u>0</u>
Total Subsidies	<u>\$67,093</u>	<u>\$99,027</u>

### (d) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2009, are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
October 6, 2003	School Renovations	\$5,138,810
October 4, 2004	School Renovation	2,777,000
October 6, 2008	Senior Van	44,075
October 6, 2008	Police Station HVAC System	30,400
October 6, 2008	School Security System Improvement	150,000
October 6, 2008	Cemetery Phase III	60,000
October 6, 2008	Municipal Departmental Vehicles	48,000
October 6, 2008	DPW Dump Truck	136,000
October 6, 2008	DPW Pick-Up Truck	39,000
October 6, 2008	Asbestos Abatement - Little School	60,000
October 6, 2008	Roads Improvements	250,000
October 6, 2008	Golf Course Garage and Septic System	350,000
October 6, 2008	Water Treatment Plant Improvements	40,000
April 6, 2009	North Reading High School - Turf Field	2,000,000
April 6, 2009	Flint Memorial Library - Painting	61,000
June 8, 2009	Various Water Projects and Equipment	<u>301,800</u>
	Total	<u>\$11,486,085</u>

Subsequent to the balance sheet date (October 5, 2009), the Town authorized borrowings in the amount of \$895,500.

E. Interfund Transfers

The accompanying financial statements reflect transactions between the various funds. These transactions represent operating transfers and do not constitute revenues or expenditures of the funds. Operating transfers made during the year were as follows:

	Transfer <u>In (Out)</u>	Transfer <u>In (Out)</u>	<u>Total</u>
<u>Fund Financial Statements</u>			
General	\$ 1,576,632	\$ (2,117,000)	\$ (540,368)
Batchelder School Fund	5,000,000	-	5,000,000
Non-Major Governmental	2,301,892	(6,394,592)	(4,092,700)
Golf - Business Type	-	(155,913)	(155,913)
Water - Business Type	-	(210,000)	(210,000)
Liability Account - Bond Forfeiture	-	(1,019)	(1,019)
Total Fund Financial Statements	<u>8,878,524</u>	<u>(8,878,524)</u>	<u>-</u>
<u>Entity Wide Financial Statements</u>			
Net Transfers In/Out Governmental Funds	366,932	-	366,932
Net Transfers In/Out Enterprise Funds	-	(365,913)	(365,913)
Liability Account - Bond Forfeiture	-	(1,019)	(1,019)
Transfer of Assets:			
Golf - Business Type	-	(863,816)	(863,816)
Governmental Activities	863,816	-	863,816
Net Transfers Entity Wide	<u>\$ 1,230,748</u>	<u>\$ (1,230,748)</u>	<u>\$ -</u>

F. Fund Balance Deficits

The Town had fund balance deficits (\$2,530,657) in the capital projects fund at June 30, 2009. The deficits will be eliminated when the Town issues the related bonds.

IV Other Information

A. Pension Plans

(a) Plan Description

The Town provides pension benefits to employees by contributing to Middlesex Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement System. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex Retirement System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Middlesex Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

(b) Funding Plan

Active members of the Middlesex Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirements of plan members is determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Middlesex Retirement System with the approval of the Public Employee Retirement Administration Commission.

The Town's contributions for the years ending June 30, 2009, 2008 and 2007 were \$2,138,978, \$1,954,596 and \$1,773,999, respectively, equal to 100% of the required contribution each year.

B. Other Postemployment Benefits (OPEB) Disclosures – GASB 43 and 45

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” that are effective June 30, 2009. These statements require the Town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis. Certain information that is required to be disclosed by GASB 43 and 45, is noted below. In addition, certain other Required Supplementary Information (RSI), required by GASB 43 and 45, is presented following the notes to the financial statements.

- a. **Plan Description.** In addition to providing pension benefits described above, the Town provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. All of the Town retirees receiving a pension from the Middlesex Regional Retirement System or the Massachusetts Teachers Retirement System are eligible for post retirement medical benefits. Currently there are approximately 264 active employees and 681 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan. The benefits are provided primarily through Blue Cross of Massachusetts, Inc.
- b. **Funding Policy.** The Town pays 50% of the total premiums for indemnity and Medicare supplement plans, 70% for HMO plans and 50% of the premiums for life insurance with the employees paying the remaining percentage. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town may be amended from time to time.
- c. **Annual OPEB Cost and OPEB Obligation.** The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the Town, an amount that has been actuarially determined in accordance with the parameters of GASB 43 and 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs

each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the fiscal year ended June 30, 2009, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$4,163,043
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	4,163,043
Contributions Made	1,565,091
Increase in Net OPEB Obligation	2,597,952
Net OPEB Obligation (NOO)- Beginning of Year	-
Net OPEB Obligation (NOO)- End of Year	<u>\$2,597,952</u>

The Town's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan and the net OPEB obligation for the current transition year is as follows:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2009	\$4,163,043	38%	\$2,597,952

- d. **Funded Status and Funding Progress.** As of July 1, 2007, the most recent actuarial valuation date, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$37,352,019, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$37,352,019.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

- e. **Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used to include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation



date, and an annual healthcare cost trend rate of 9.5 percent initially, reduced by decrements of 0.5% to an ultimate rate of 5 percent. The actuarial value of assets was determined using market value. The UAAL is being amortized over a thirty year amortization period.

C. On Behalf Payments

In accordance with Governmental Accounting Standards Board Statement Number 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance," the Town is required to recognize, as income, certain payments made on behalf of the Town by the Commonwealth of Massachusetts. Specifically, the Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board (the "State Plan") on behalf of the Town's teaching employees. The Town is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth.

For the fiscal year ended June 30, 2009, the Commonwealth paid \$4,008,037 to the State Plan on behalf of employees of the Town. Accordingly, the accompanying fund financial statements include the required adjustments, which have increased both Intergovernmental revenues and the Education expenditures by the same amount in the fund financial statements and the education expense and program revenue in the government wide financial statements. The net effect of this adjustment does not change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2009, or fund balances/net assets at June 30, 2009.

D. Subsequent Year Authorizations

On June 8, 2009, October 5, 2009 and November 9, 2009, the Town adopted a fiscal 2010 operating and capital budget of \$52,830,376. Fiscal 2010 budgetary amounts which are not reflected (except for designated for subsequent year's expenditures) in the accompanying financial statements will be financed by the following sources:

2010 Property Taxes, State Aid	
and Non-Property Tax Revenue	\$ 45,038,077
General Fund Unreserved Fund Balance	569,454
Enterprise Fund Revenues	4,817,514
Other Available Funds	1,945,638
Designated for Subsequent Year's Expenditures:	
(Reflected on Balance Sheet)	
Non-Major Funds	459,693
	<u>\$ 52,830,376</u>

E. Due to Other Governments – Non Current

1. Prior to fiscal year 2004, the Town had questioned costs (\$155,239) relating to their federal Copsfast grant. The questioned costs appear to be the result of an error in the amount of funds drawn down per officer and the timing of the draw downs. The Department of Justice and the Town have entered into an agreement whereby the Town will repay the questioned costs over a five year period.

F. Prior Period Adjustments

A prior period adjustment (\$459,612) was made to the governmental activities in the government wide financial statements. Assets acquired in prior years, were not reflected in the fiscal year 2008 financial statements.

A prior period adjustment (\$2,762,025) was made between major and non major capital project funds in the governmental funds. Bond proceeds related to the major fund (Batchelder School) were previously reported in the non major funds.

G. Contingent Liability

The Town has various pending litigation. The potential results of the litigation are unknown. If the Town loses, the liability could range between \$90,000 and \$225,000.

Town of North Reading, Massachusetts  
Required Supplementary Information  
General Fund  
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual  
Fiscal Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Amounts	
<u>Revenues:</u>				
Property Taxes	\$ 31,830,277	32,137,165	\$ 32,172,322	\$ 35,157
Tax Liens	-	-	147,412	147,412
Excises	2,141,936	1,965,844	2,274,003	308,159
Penalties and Interest	130,614	130,614	237,371	106,757
Licenses and Permits	497,138	352,338	441,438	89,100
Fees and Other Departmental	205,000	140,000	203,555	63,555
Intergovernmental	9,451,698	9,451,698	8,586,897	(864,801)
Charges for Services	953,820	953,820	946,325	(7,495)
Fines and Forfeits	20,500	15,000	13,455	(1,545)
Earnings on Investments	234,361	234,361	122,361	(112,000)
In Lieu of Taxes	320,000	320,000	359,571	39,571
Miscellaneous	-	98,196	25,336	(72,860)
Total Revenues	45,785,344	45,799,036	45,530,046	(268,990)
<u>Expenditures:</u>				
Current:				
General Government	2,406,332	2,129,401	2,044,717	84,684
Public Safety	5,447,244	5,625,817	5,503,773	122,044
Education	22,789,704	22,777,148	22,685,681	91,467
Highway and Public Works	3,078,690	3,240,570	3,655,245	(414,675)
Health and Human Services	465,703	495,469	482,145	13,324
Culture and Recreation	537,408	605,521	597,428	8,093
Intergovernmental	166,514	166,514	178,666	(12,152)
Employee Benefits	7,486,167	7,486,167	6,758,050	728,117
Debt Service	4,533,796	4,228,796	4,225,364	3,432
Total Expenditures	46,911,558	46,755,403	46,131,069	624,334
Excess (Deficiency) of Revenues Over Expenditures	(1,126,214)	(956,367)	(601,023)	355,344
<u>Other Financing Sources (Uses):</u>				
Transfers In	1,126,214	1,450,719	1,450,719	-
Transfers Out	-	(2,097,000)	(2,097,000)	-
Budgetary Fund Balance - Sources	-	2,069,425	2,069,425	-
Budgetary Fund Balance - Uses	-	(466,777)	(466,777)	-
Total Other Financing Sources (Uses)	1,126,214	956,367	956,367	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	\$ -	-	\$ 355,344	\$ 355,344

Required Supplementary Information  
Middlesex Regional Retirement System  
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ration (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/1996	\$ 373,750,361	\$ 634,920,488	\$ 261,170,127	58.87%	\$ 218,345,024	119.61%
1/1/1998	476,708,969	763,093,878	286,384,909	62.47%	215,380,186	132.97%
1/1/2000	570,263,467	905,280,472	335,017,005	62.99%	253,228,818	132.30%
1/1/2002	599,699,143	1,020,828,178	421,129,035	58.75%	280,740,439	150.01%
1/1/2004	618,163,380	1,223,828,127	605,664,747	50.51%	306,025,949	197.91%
1/1/2006	653,156,866	1,364,582,969	711,426,103	47.86%	330,999,861	214.93%
1/1/2008	774,863,669	1,529,806,307	754,942,638	50.65%	360,206,302	209.59%

Required Supplementary Information  
Middlesex Regional Retirement System  
Schedule of Employer's Contribution

System Wide				Town of North Reading	
Plan Year Ended December 31	Annual Required Contributions	Actual Contributions (A)	Percentage Contributed	Actual Contributions (B)	Town's Percentage of System Wide Actual Contributions (B/A)
2001	\$27,900,209	\$ 27,900,209	100.00%	\$ 797,425	2.86%
2002	30,248,147	30,248,147	100.00%	838,583	2.77%
2003	35,411,500	35,411,500	100.00%	949,837	2.68%
2004	52,902,366	52,902,366	100.00%	1,296,853	2.45%
2005	52,298,150	52,298,150	100.00%	1,383,883	2.65%
2006	60,169,717	60,169,717	100.00%	1,569,774	2.61%
2007	64,664,829	64,664,829	100.00%	1,773,999	2.74%

Town of North Reading, Massachusetts  
Required Supplementary Information - GASB 45  
Schedule of Funding Progress  
Fiscal Year Ended June 30, 2009

Projected Unit Credit, Pay-As-You-Go Assumptions (4.00%)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
7/1/2007	\$0	\$37,352,019	\$37,352,019	0%	12,295,225	304%

Town of North Reading, Massachusetts  
Required Supplementary Information - GASB 45  
Valuation Details  
Fiscal Year Ended June 30, 2009

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Valuation Date	July 1, 2007
Actuarial Cost Method	Projected Unit Credit
Amortization of Unfunded Liability	Level dollar thirty year open amortization basis
Asset Valuation Method	Not applicable - plan is unfunded

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**Actuarial Assumptions:**

Investment Rate of Return	4.0%
Medical/Drug Cost Trend Rate	9.5% graded off 0.5% per year to an ultimate rate of 5.0% per year
Dental Cost Trend Rate	5.0% graded off 0.25% per year to an ultimate rate of 4.0% per year

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Plan Membership:

Current retirees, beneficiaries and dependents	264
Current active members	<u>681</u>
Total	945

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Town of North Reading, Massachusetts  
Notes to the Required Supplementary Information  
June 30, 2009

(A) Budgetary Information

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January and February of each year. The Selectmen and Finance Committee have until March, which is when the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations. Encumbrances still open at year end are reported as a reservation of fund balance. Encumbrances do not constitute expenditures or liabilities.

(B) Pension Plans

1. Plan Description

The Town provides pension benefits to employees by contributing to Middlesex Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement System. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex Retirement System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Middlesex Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

2. Funding Plan

Active members of the Middlesex Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirements of plan members is determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Middlesex Retirement System with the approval of the Public Employee Retirement Administration Commission.

The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the accrued liability for benefits. Additionally, a schedule of employer contributions is presented as required supplementary information. The schedules presented relate to the Middlesex Retirement System as a whole (of which the Town is one participating employer). The Town's data included should be helpful for understanding the scale of the information presented relative to the Town.



### 3. Actuarial Assumptions

<b>Valuation Date</b>	January 1, 2008
<b>Actuarial Cost Method</b>	Entry age normal cost method.
<b>Amortization Method</b> Retirement	Level dollar for the 1992, 2002, and 2003 (Early Incentives) ERI's and 4.5% increasing for the remaining unfunded liability.
<b>Remaining Amortization Period</b>	As of July 1, 2008, 2 years remaining for the 1992 ERI liability; 11 years remaining for the 2002 ERI liability; 12 years remaining for the 2003 ERI liability and 20 years for the remaining unfunded liability.
<b>Asset Valuation Method</b>	The difference between the expected return and the actual investment return on a market value basis is recognized over a five year period as described by Revenue Procedure 2000-40.
<b>Actuarial Assumptions:</b>	
Investment Rate of Return	8.25%
Projected Salary Increases	4.00% for the next 2 years; then 4.75% for Group 1 and 5.25% for Group 4
Cost of Living Adjustments	3.00% of the first \$12,000 of retirement income
<b>Plan Membership:</b>	
Retired Participants and Beneficiaries Receiving Benefits	4,764
Inactive Participants Entitled to a Return of their Employee Contributions	3,077
Invested Participants with a Vested Right to a Deferred or Immediate Benefit	190
Active Participants	<u>9,285</u>
Total	<u>17,316</u>

Town of North Reading, Massachusetts  
Schedule of Expenditures of Federal Awards  
Fiscal Year Ended June 30, 2009

<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
National School Lunch Program	10.555	\$ 81,538
Total U.S. Department of Agriculture		<u>81,538</u>
<u>U.S. Department of Justice</u>		
Community Policing	16.710	42,899
Total U.S. Department of Justice		<u>42,899</u>
<u>U.S. Department of Education</u>		
Title I	84.010	70,714
SPED PL 94-142 Allocation	84.027	526,820
SPED Program Improvement	84.027	16,544
Subtotal # 84.027		<u>543,364</u>
SPED Early Childhood	84.173	15,580
Safe and Drug-Free Schools	84.186	4,821
Enhanced Education Through Technology	84.318	1,894
Teacher Quality	84.367	40,638
State Fiscal Stabilization	84.394	648,955
Total U.S. Department of Education		<u>1,325,966</u>
<u>U.S. Department Homeland Security</u>		
Essex County Trench Rescue	97.Unk	12,175
Total U.S. Department Homeland Security		<u>12,175</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 1,462,578</u>

Town of North Reading, Massachusetts  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2009

(1) Scope of Audit

The Town of North Reading, Massachusetts (the Town) is a governmental agency established by the laws of the Commonwealth of Massachusetts.

All federal grant operations of the Town are included in the scope of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The single audit was performed in accordance with the provisions of OMB's Circular A-133, *Compliance Supplement*.

(2) Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards includes all of the federal grant expenditures of the Town.

Federal grant revenues are recognized in the Town's financial statements on the accrual basis for proprietary fund grants. Grant receipts in governmental funds are recorded on the modified accrual basis whereby revenue is recognized when it becomes available and measurable.

Disbursements of federal grant funds are recorded on the modified accrual basis.

(3) Findings of Noncompliance

No findings of noncompliance were reported in connection with the 2009 single audit.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Selectmen  
Town of North Reading, Massachusetts  
Town Hall  
235 North Street  
North Reading, MA 01864

We have audited the basic financial statements of the Town of North Reading, Massachusetts as of and for the year ended June 30, 2009, and have issued our report thereon dated January 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of North Reading, Massachusetts' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of North Reading, Massachusetts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of North Reading, Massachusetts' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of North Reading, Massachusetts' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of North Reading, Massachusetts' financial statements that is more than inconsequential will not be prevented or detected by the Town of North Reading, Massachusetts' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of North Reading, Massachusetts' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of North Reading, Massachusetts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Town of North Reading, Massachusetts in a separate letter dated February 17, 2010.

The report is intended solely for the information and use of management, the Board of Selectmen and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

*Giusti, Hingston and Company*

Giusti, Hingston and Company  
Certified Public Accountants  
January 28, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133

Board of Selectmen  
Murphy Center  
235 North Street  
North Reading, MA 01864

Compliance

We have audited the compliance of the Town of North Reading, Massachusetts with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Town of North Reading, Massachusetts' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of North Reading's management. Our responsibility is to express an opinion on the Town of North Reading's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of North Reading's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of North Reading's compliance with those requirements.

In our opinion, the Town of North Reading, Massachusetts complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Town of North Reading is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of North Reading's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of North Reading, Massachusetts' internal control over compliance.

A *control deficiency* in the Town of North Reading, Massachusetts' internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Town of North Reading, Massachusetts' ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Town of North Reading, Massachusetts' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Town of North Reading, Massachusetts' internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Selectmen, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Giusti, Hingston and Company*

Giusti, Hingston and Company  
Certified Public Accountants  
January 28, 2010

Town of North Reading, Massachusetts  
Schedule of Findings and Questioned Costs  
Fiscal Year Ended June 30, 2009

(I) Summary of Auditors' Results

- 1 The opinion of the financial statements was unqualified.
- 2 No significant deficiencies in internal control were reported in the audit of the financial statements.
- 3 No instances of noncompliance which were material to the financial statements were reported.
- 4 No significant deficiencies in internal control relating to major programs were reported.
- 5 The opinion on compliance with requirements applicable to major programs was unqualified.
- 6 No audit findings relative to the major federal award programs were reported.
- 7 The major programs identified was:

<u>Funding Source</u>	<u>Program</u>	<u>CFDA Number</u>
Department of Education	SPED IDEA Allocation	84.027
Department of Education	SPED IDEA Preschool	84.173
Department of Education	State Fiscal Stabilization	84.394

- 8 The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- 9 The Town did qualify as low risk.

(II) Findings - Financial Statement Audit

No findings were reported related to the financial statements.

(III) Findings and Questioned Costs for Federal Awards

No findings or questioned costs were reported.